



March 25, 2005

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket No. R-1217

Dear Ms. Johnson:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the Board of Governors of the Federal Reserve System's (Board) advance notice of proposed rulemaking (ANPR) and request for comments regarding amending 12 CFR part 266, "Regulation Z." In particular, the Board has requested comments regarding the rules related to open-end credit on the following: (1) the manner in which format changes could enhance consumer's ability to notice and understand disclosures by making them more clear and conspicuous; (2) how the content of disclosures can be improved or simplified to enhance consumers' understanding of the cost of credit; and (3) whether there is a need to modify the rules that implement the Truth in Lending Act's (TILA) substantive protections for open-end accounts.

Prior to discussing the specifics of the Board's request for comments, NAFCU would like to take the opportunity to make some general comments regarding the effectiveness of the disclosures in Regulation Z. The Board noted in its ANPR that a 2001 survey of consumers found that information on credit card accounts was easy to obtain, but difficult to understand. NAFCU does not have specific data to confirm this finding, but NAFCU has heard concerns from member credit unions that consumers are not reading the disclosures that are provided to them. Thus, NAFCU believes that the Board should address the regulatory burden involved with providing disclosures to consumers that are not being utilized. Below, NAFCU suggests some specific amendments to Regulation Z that may improve the effectiveness of the regulation, including the simplification of the content of disclosures.

Format of Disclosures

NAFCU believes that the current format of account-opening disclosures is sufficient given the volume of information needed to be expressed to a consumer. Before any changes to the format of the disclosures can be effectuated, it appears necessary to revise or condense the content of the disclosures themselves. Certain navigation tools, such as a table of contents, may prove to be helpful to a consumer but should be left to the discretion of the financial institution.

Similarly, NAFCU believes that the format of disclosures on periodic statements is adequate. While some NAFCU member credit unions have indicated that it may be helpful to group related disclosures together, others have indicated that they do not have complex open-end credit programs that would necessitate the grouping. NAFCU believes that the Board should provide alternate models for periodic disclosures to give financial institutions options. In particular, NAFCU believes that financial institutions should have the option to add other fees, such as a cash advance fee, to the Schumer Box.

The Board has also asked for comments regarding subsequent disclosures and linking this information to initial disclosures. NAFCU does not believe that subsequent disclosures should be made more complex by including a reference back to another document. For those consumers that do not retain their initial disclosures, this information would not be meaningful.

Finally, with regard to the format of disclosures, NAFCU would like to emphasize that providing financial institutions with model clauses not only assists financial institutions with compliance, but also aids consumers when comparing different credit products because the disclosure language is the same.

Content of Disclosures

NAFCU supports providing consumers with adequate fee disclosures that will enable them to make educated decisions when choosing open-end credit. NAFCU believes that the apparent inconsistency in disclosing fees may inhibit the consumer from understanding the cost of his/her credit.

For instance, NAFCU believes that it is unclear as to whether including fees and finance charges in the annual percentage rate (APR) on periodic statements provides helpful information. Currently, when a creditor sends a solicitation of credit, the solicitation includes an APR which indicates the rate of interest that the consumer will incur in using the credit. TILA also requires that creditors include an "effective APR" in periodic billing statement that includes any finance charges other than interest. The disclosure of the effective APR may assist consumers in discerning the cost of credit for that billing cycle, but it is not certain as to whether the effective APR gives the consumer an accurate depiction of the cost of credit over more than one cycle.

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NAFCU also believes that a fee should not be classified as a finance charge based on whether the fee affects the amount of credit available. To classify a finance charge in this manner may not give a consumer meaningful information. NAFCU suggests that a more straightforward disclosure of the cost of credit with an actual dollar amount per periodic billing cycle of incurred interest and an actual dollar amount of incurred fees will ameliorate these concerns. As noted above with periodic statements, providing concise model disclosures, in easy to understand language, regarding fees will provide consumers certainty.

Substantive Protections

NAFCU believes that the protections of Regulation Z are adequate to protect consumers, but that the content of disclosures needs to be improved.

Additional Issues

In addition to amending disclosures to ensure compliance with TILA rules, NAFCU suggests that the Regulation Z itself be structured by category of credit instead of by type of protection. For instance, "open end (secured)", "open end (revolving)", "closed end" (real estate) could be categories. If combined with more model disclosures, this structure will make it easier to discern what disclosures are necessary for each type of credit.

Finally, the Board has requested comments on whether Regulation Z should be amended piecemeal or all at once. NAFCU believes that the regulation should be amended in parts, but that all of the changes regarding disclosures should go into effect at the same time. Irrespective of the content of the disclosures, it is very expensive for financial institutions to continually have to change disclosures, and it is confusing to consumers to receive slightly different disclosures regarding the same account.

NAFCU would like to thank you for this opportunity to share its views on this proposed rulemaking. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred R. Becker, Jr.", is positioned to the left of a vertical red line.

Fred R. Becker, Jr.
President/CEO

FRB/crh